

Tax Working Group Public Submissions Information Release

Release Document

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Tax Working Group

Submissions from Allen Cookson

[1]

What does the future of tax look like to you?

Tax rates might eventually be lower, mainly because of reduced defensive expenditures (crime, avoidable health problems, etc.), more efficient monitoring of adherence to regulations and reduced circular money flows in the public sector. Tax to pay for reforms which will in time greatly reduce defensive expenditures can be regarded as sound investments with good returns.

However Statistics NZ projected NZ's total dependency ratio (sum of the 0–14 and 65+ dependency ratios) to increase from 53 per 100 in 2016, to be in the range of 60–70 per 100 in 2035. Without dramatic changes such as automation and administrative efficiencies, this portends high tax, unless defensive costs can be greatly reduced.

What is the purpose of tax?

1. Providing government with money to carry out its tasks.
2. Deterring undesirable economic, environmental and social activities and raising revenue to encourage and subsidize desirable environmental and social activities.

Are we taxing the right things?

It may be possible to reduce or remove some taxes such as company tax, personal tax and GST by establishing or increasing road tolls, visitor tax, fuel tax, royalties. It would be worth considering removing GST on local government rates. Financial transactions tax (FTT) (<ca.0.1%) might raise \$1B per annum if the rate is low enough. Flight of capital from the country could be deterred by reducing company tax. We approve of investment because it creates wealth and employment. Speculation shifts wealth from some people to others. There may be no gain from this. There are too many skilled people involved in sometimes too active share and money markets.

What tax issues matter most to you?

Kiwis travelling overseas are appalled to see ads inviting investors to make tax-free capital gains on real estate in NZ. Non-residents should be forbidden to purchase land or existing houses/flats/apartments. Opening housing and land to a global capital market inflates the price of these. Overpriced farms are less profitable because of the debt servicing burden. There should be a substantial capital gains tax (CGT) payable on sale of a residential property which was bought subsequent to introduction of the tax. This tax should be applied to family homes and rental housing. Exclusion of family homes would weaken the

price-controlling effect of CGT. CGT would diminish the present practice of using covenants in housing developments which maintain unaffordability of houses. Such practices include approving only large houses (They have a low cost per area, but their large size makes them unaffordable.) Covenants also ban kitset houses which are cheaper and can include several models which provide variety. Local geography such as slope and aspect will require some variety even in kitset homes.

I think the guidelines to the working group seem to imply that the nature and level of tax can be decided to fit a budget without considering non-tax measures which could relieve fiscal stress. Following here are more detailed suggestions including non-tax measures for limiting or reducing tax while increasing welfare.

Alcohol abuse

A 2009 report by BERL (Business and Economics Research Limited) commissioned by the Ministry of Health and ACC, estimated the social costs of alcohol abuse conservatively at \$4.8 billion, not much less than total agricultural output at the time. An additional \$661M social cost was attributed to joint alcohol and other drug use which could not be separated. Methodological considerations in the research make it almost certain that the true cost is significantly higher.

Revenue from the alcohol excise is \$795M a year, so non-drinkers and moderate drinkers are generously subsidizing the liquor industry and alcohol abusers through personal and other taxes which are passed on to consumers of goods and services in general as higher prices. If the social costs of alcohol abuse were reduced by preventing excessive individual consumption, tax/excise that is spent on dealing with harmful consequences of over indulgence could be reduced, eliminated or deployed in more beneficial directions.

BERL hasn't attempted to estimate benefits of alcohol consumption. They were castigated for this by then University of Canterbury economist Eric Crampton, and of course the liquor industry. (Crampton was later hired by the liquor industry.) The government hadn't contracted BERL to quantify the benefits. If we want to estimate the benefit of alcohol consumption we could use the willingness to pay (WTP), i.e. how much is spent on alcoholic beverages. This wouldn't impress someone with permanent pain and brain damage as a result of an encounter with a drunk driver. If you regard WTP as a valid measure of benefit, to be consistent you would have to consider use of illegal drugs cocaine and P as possibly having net benefit as in a place controlled by drug cartels.

Suppose liquor purchases could only be made with a special EFTPOS card which rejected exceeding a weekly alcohol cap which could not be accumulated from week to week. There would be a separate bar code giving the alcohol content of each item. The objective of preventing excessive consumption would almost certainly be achieved. Some would save up their allowance for a splurge at one weekend, but they should be wary of any criminal behaviour linked with alcohol consumption, which would see the offender unable to purchase alcoholic beverages for the rest of their life, though friends would be allowed to

share small portions of their own purchases with the offender.

A card's issue would depend upon age, criminal record and not assisting problem drinkers without a card to become intoxicated. Banks would charge card holders setting up and running costs. A card would be deactivated at a bank if the holder were convicted of an alcohol related offence. The present situation, where irresponsible adults supply teenagers, would cease, firstly because the adults have a very limited purchase right, and secondly, they know they prejudice their own right to purchase if they supply underage drinkers.

Special applications for large purchases by card holders who wish to supply alcohol at a function could be covered by a bond refundable if no guests committed alcohol related offences. Trouble would see the card holder denied further such purchases.

Along with the above reform the alcohol excise should be greatly reduced or even abolished, so that moderate drinkers manufactures and retailers gain some extra benefit from the much larger reduction in abuse costs. This, unlike increasing alcohol tax, reduces the incentive for illegal /importing or manufacture of alcoholic beverages and would make the proposal more politically acceptable to consumers, local manufacturers and the Hospitality Association.

I would see hobby brewers and wine makers having a permit which forbids sale of the product. Supply would be limited to family and close friends. Breach of the conditions of the permit would result in a fine, loss of the permit and confiscation of equipment.

In short this suggestion reduces consumption of a harmful substance by regulation, not price. The evidence is clear that addicts are undeterred by high price. No matter if their kids starve! The liquor industry would produce and sell less alcohol at higher net price. This legislation would not affect liquor exports but would affect imports.

Reducing Crime

55% of New Zealand prisoners report experiencing domestic trauma. "The recently completed survey on the comorbidity of substance use disorders and mental health disorders among New Zealand prisoners showed that 52 percent of female prisoners, and 22 percent of male prisoners have a lifetime diagnosis of Post-Traumatic Stress Disorder (PTSD)." Bevan, Marian 2017. *New Zealand Prisoners' Exposure to Trauma. Practice: The New Zealand Corrections Journal. Vol. 5.*

The cost of New Zealand domestic violence (probably linked to alcohol consumption) has been estimated to exceed the value of the agriculture, forestry and fisheries industries combined. The authors claim robustness of their evidence for this statement. Herbert, Ruth and MacKenzie, Deborah. 2014. *The Way Forward. An Integrated System for Intimate Partner Violence and Child Abuse and Neglect in New Zealand.* Impact Collective. It is commonly stated that the cost of imprisonment is about \$100,000 per prisoner per annum.

Research has revealed heritable changes in the expression of a person's underlying genome. This epigenetics can include switching on expression of alcohol addiction and obesity. So, exposure of a foetus to alcohol or a high blood sugar environment in utero can produce heritable alcoholism or obesity. As research continues, harmful inherited damage from recreational drugs such as p and cannabis can be expected to be revealed. In many cases there is no prospect of undoing the damage done. Those who care for such children know the difficulties they face. Even the most skilled carers are challenged. Some foster children become dangerous to other children and adults. Without government action, epigenetic damage will impose multibillion dollar extra economic costs on NZ. Sugar taxes, abolition of alcopops, and sterilization of binge drinkers and users of banned recreational drugs must be given serious consideration. Otherwise a dependency ratio insupportable by productive taxpayers is unavoidable.

Diabetes and Obesity

Opponents of a sugar tax appear to favour heavy taxation of responsible, healthy, productive people to fund treatment of unproductive, obese, accident-prone and/or diabetic people whose condition was self-inflicted or the result of irresponsible parenting. Sugar tax is best regarded as health insurance and *supported living payment* premiums not as a means of reducing sugar consumption. Those who pay the most will be most likely to draw upon government funded medical treatment for themselves and their children. If there were a single importer of sugar who supplied the NZ food industry and sugar retailers, administration of a sugar tax on the bulk imports would be simple. Testing for sugar in imported biscuits, chocolate, etc. would involve costly sampling and testing. This cost should be added to the sugar excise/tax levied on the importer. According to medical professionals working in the field excessive sugar consumption will probably impose multibillion dollar health and other costs on our economy in the near future.

Intergenerational Morbidity

The present situation of family generation of epigenetic damage and parental abuse and neglect-induced trauma is a positive feedback loop. Children born to a mother using harmful substances at dangerous levels may be mentally damaged. If their childhood experience is of a chaotic, violent home, these children are more likely to model this in their adulthood than children from peaceful, nurturing homes. This follows in succeeding generations. In some such homes the malignant positive feedback is magnified by there being a large number of children with a number of fathers most likely absent. Several studies around the world have shown that children of unplanned pregnancies are more likely than those from planned pregnancies to be abused or neglected. The advent of birth control methods has brought about demographic transition where average family size has dropped.

There are several medical products which can be implanted in women/girls to render them infertile for several years. It seems likely that a corresponding procedure for men/boys will soon be available. My view is that in the most serious cases where potential parent(s) are clearly unable to provide a safe environment for children, the state should have the power

to temporarily sterilize potential mothers. Legal and medical oversight to prevent exceeding of reasonable rights of the girl/ woman would be part of the system. If a woman demonstrates incorrigible irresponsibility, this indicates a need for repeat compulsory sterilization until menopause.

The most important reason for this policy is prevention of children being born into a life of misery. It will produce a positive feedback where child abuse and neglect declines at an increasing rate. This will in turn strengthen the economy, enabling lower taxes or more expenditure to increase welfare.

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